



Water Resources Equipment & Services in Indonesia

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Summary

Indonesian imports of water resources equipment and service in 2004 were \$142 million, a decrease of almost 10% compared to 2003. In 2003, the U.S. had the fifth largest market share at 11 percent. Japanese products dominate the sector, with a market share of 30 percent.

Opportunities abound in water resources equipment and services for the commercial and industrial sector. The primary end-users of water resources equipment in Indonesia market are: government agencies, environmental engineering companies, industrial parks, food processing companies, pharmaceuticals, industrial chemicals and electronic components industries. Expected growth in the best prospects section of these industries include aeration equipment, filter and filter presses, screens, sludge treatment equipment, pumps, oil separators, liquid-solid separators and biological & chemical products.

U.S. products and engineering services have a good reputation in Indonesia for their quality and advanced technology in the field of water and wastewater treatment. U.S. products such water filtration, water purification equipment & control systems, and water treatment chemicals enjoy a good reputation among local buyers. In general, products from the U.S. are highly regarded for their quality. The major hurdle to overcome in this market, however, is the initial cost of the product and service.

Market Overview

Indonesia has abundant water resources in almost in every region. The average rainfall varies from 40 inches to 200 inches, with an average of just over 100 inches for the whole country. The total average yield from all the river basins was estimated to be the order of 14,000 cubic meters per capita per annum. There are however, wide regional differences and the per capita availability in some of the basins in Java is less than a tenth of national average. There are also seasonal and longer-term variations, which cause serious water shortages. To address these storages reservoir capacity must be raised two or three times from the present total of about 10,000 million cubic meters.

Market Trends

Indonesia's water resources sector faces increasingly complex long-term investment challenges and management problems, which, unless effectively addressed, will increasingly constrain the country's economic development and lead to a deterioration of food security, public health and irreversible damage to the environment exacerbated by inappropriate and ineffective legal structures, regulations, policies and institutions.

The key environmental problems in Indonesia are:

- an insufficient supply of safe drinking water;
- the scarcity and pollution of water resources;
- land salting and swamping of the land;
- pollution in the largest cities and industrial centers; the accumulation of solid wastes;
- the contamination of food products.

Import Market

This report covers the following water resources equipment:

39.17.29 PVC pipe
73.03.00 Tubes, pipes, of ductile iron
73.06.90 Tubes, pipes, of steel
73.07.21 Flanges
73.07.22 Elbows, bends and sleeves
84.13.60 Pumps for liquids, other rotary positive displacement pumps
84.13.70 Other Centrifugal Pumps
84.21.21 Water filtering and purification equipment
84.21.29 Other filtering or purifying machinery & apparatus
84.79.82 Mixing, Kneading or Stirring machines
84.81.10 Water pressure-reducing valves
84.81.30 Gate and check valves
84.13.30 Pumps, fuel-injection, other
84.81.10 Valves, pressure-reducing
84.81.30 Valves, check
84.81.40 Relief valves
84.81.80 Valves, control
84.81.90 Valves, parts
90.26.10 Water flow/level instrumentation
90.26.90 Parts and accessories of water instrumentation
90.28.20 Water production and metering instruments

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	2003	2004	2005 (estimated)
Total Market Size	100	85	110
Total Local Production	15	8	10
Total Exports	70	65	60
Total Imports	155	142	160
Imports from the U.S.	22	18.5	20

Figures given in U.S. dollars in millions.

Note: The above statistics are unofficial estimates

Source: Indonesian Central of Bureau of Statistics

Based on industrial contacts, the following U.S. products and engineering services have a good reputation in Indonesia for their quality and advanced technology in the field of water and wastewater treatment. U.S. products such water filtration, water purification equipment & control systems, and water treatment chemicals enjoy a good reputation among local buyers. In general, products from the U.S. are highly regarded for their quality. The major hurdle to overcome in this market, however, is the initial cost of the product and service.

Competition

The water resources equipment market in Indonesia is competitive, with an increasing number of international suppliers trying to win projects. Japan, China and Korea dominate the machinery and equipment market. Local companies control the construction services market. Japanese suppliers lead the engineering consultant service market with an estimated share of almost 40 percent, followed by suppliers from other Asian countries e.g. China, Taiwan and Korea and European union countries.

Japanese suppliers have had a strong presence market for years. They provide high-quality machines at very competitive prices compared to their counterparts in Europe and U.S. In addition, due to the geographical proximity to Indonesia, Japanese manufacturers have easier access to the market. They are well versed in Indonesian culture and customs and understand the buyers' needs.

European machinery manufacturers are export oriented and open to the Indonesian customer's requirements and will accept smaller orders. Indonesian end-users look for machinery that is very adaptable, with the ability to adjust to different applications.

End Users

The primary end-users of water resources equipment in Indonesia market are: government agencies, environmental engineering companies, industrial parks, food processing companies, pharmaceuticals, industrial chemicals and electronic components industries.

The municipal water treatment market is split evenly between the government and private industry. The government sector treats water and raw sewage. The private sector supplies equipment for aeration, clarification, disinfection, filtration and sludge treatment. The conventional method of using demineralizers for treatment is being replaced with reverse osmosis and newer technologies such as ultra-filtration and electro-dialysis.

The government makes purchase decisions through a standard tendering process. The overriding consideration in government purchases is cost. However, the private sector is increasingly adopting lifecycle cost analysis for procurement decisions, especially in service-oriented industries such as healthcare and hotels. In the wastewater treatment market, procurement decisions are primarily focused on the minimum standards required to meet government regulations. State governments have the primary responsibility for water use and control. The administrative control and responsibility for development of water rests with the various state departments and corporations.

Market Access

Most foreign firms market their products in Indonesia through an agency arrangement, whereby an independent local company is appointed as the sole agent, in most cases representing several related foreign principals simultaneously. Companies, which intend to enter the market on a large scale usually establish an exclusive sole agency with an experienced and active local partner.

The Government of Indonesia (GOI) upon request can grant import duty exemptions on pollution control equipment. However, since the procedures for obtaining this incentive are known to be bureaucratic and time consuming, most companies prefer to import the equipment directly at import duties ranging between zero and five percent. A uniform 10 percent value-added tax is also applied.

Market Entry

There are two main ways in which foreign suppliers distribute their products in Indonesia. Companies which seek to enter the Indonesian market on a large scale usually establish an exclusive sole agency with a knowledgeable local partner. These local firms are large, offering a professional and complete range of products and services, and are often the winning tenders for large-scale pollution treatment plants. Since this kind of an arrangement requires substantial capital, a number of foreign companies sometimes team in pursuing these tenders.

Although a foreign equipment supplier is technically permitted to trade in Indonesia without a local partner, in practice, this is rarely done because the local counterpart plays a vital role in establishing and maintaining connections to essential government and private contracts.

Another distribution scheme, and the primary channel most foreign firms use to market their products in Indonesia, is through an agency arrangement whereby an independent local distributor acts as the "sole agent" for many foreign companies.

Besides selling the products to other distributors, wastewater treatment contractors and end users, some agents also offer related services such as consultancy, design, installation and after sales service. This kind of a contract provides greater flexibility and does not involve as much capital and risk. However, with this arrangement, it is more difficult to get established in the market and obtain a high-sales volume due to competition from other brands.

Payment practice for ready-stock products: immediate cash payments are required, while for an advanced orders (2-3 months delivery after order), down payments of 40 – 60 percent with the balance due on delivery is common. The average delivery time ranges between three to five months.

Opportunities for Networking

The U.S. Commercial Service (CS) in Indonesia encourages American companies' participation in local trade fairs to introduce products to the market. While most fairs are useful as a venue to meet relevant contacts, their quality varies according to the experience of the organizer and its ability to advertise and draw customers to the events. In most shows, majority of exhibitors are local representatives, licensees and distributors of foreign suppliers, and only a handful of U.S. and foreign firms participate. Ideally, prospective U.S. exhibitors should link the exhibition to a targeted appointment schedule, which the CS can organize through its Gold Key Service program.

Key Contacts

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(Indonesian Water Supply Association)

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Contact person: Mr. Ir. Muzahim Mukhtar, Dipl. SE, President Director

Trade Shows

The following is a trade show which U.S. water resources equipment & services exporters should consider participating in:

Environment Technology Indonesia 2006

The 14th International Exhibition on Equipment and Systems for Pollution Control and Environmental Improvement. Incorporating with Watertech Indonesia.

Held in Jakarta Trade Kemayoran on December 6-9, 2006

For further information on the above trade show, please contact the organizer:

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